Canadian Agriculture and Agri-Food

Exporter's Guide to Opportunities in the Middle East: SAUDI ARABIA

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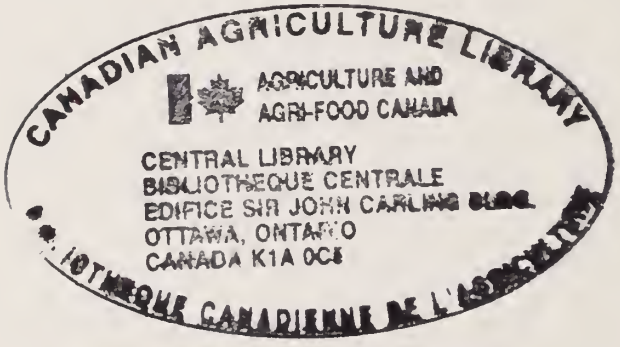
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Canadian Business Develoment International
Presents:

Canadian Agriculture and Agri-Food
Exporter's Guide to Opportunities
in the Middle East:

SAUDI ARABIA

OTHER AVAILABLE COUNTRIES IN THE STUDY

- United Arab Emirates
- Bahrain
- Kuwait
- Oman
- Qatar
- Jordan
- Lebanon
- Syria
- Yemen

Canadian Business Development International (CBDI) has been contracted by the Market Industry Services Branch of Agriculture and Agri-Food Canada to provide an overview of the export opportunities and general guidelines for Canadian exporters of agriculture and agri-food products in the following 10 countries in the Middle East:

1) Saudi Arabia	2) United Arab Emirates
3) Bahrain	4) Kuwait
5) Oman	6) Qatar
7) Jordan	8) Lebanon
9) Syria	10)Yemen

The studies of the other nine countries are available from Agriculture and Agri-Food Canada.

The study is a collection of the best available government and private sector information from Canada and abroad. It is designed to provide the reader with a fully compiled and referenced single source for all of this material as well as a detailed analysis of secondary import and export statistics provided by Statistics Canada and the World Trade Database.

The information contained in this document has been reviewed by trade and commodity experts at Agriculture and Agri-Food Canada, Department of Foreign Affairs and International Trade, and Canada's posts in the countries, and has met with their approval.

For a comprehensive list of the sources used by CBDI and a directory of contacts for further information please see the Bibliographical Index and Contact Information sections at the end of the report.

EXECUTIVE SUMMARY

INTRODUCTION:

The Agriculture and Agri-Food Exporter's Guide to Opportunities in the Middle East is designed to provide the reader with a single source reference manual on the key elements and opportunities for exporting to ten countries in the Middle East. It is intended for use by Canadian agri-food exporters. Trade Commissioners and other government officials will also find it a useful source document for information requests.

This study is in a modular format, such that each country profile can act as stand-alone documents, detailing the relevant information for potential Canadian exporters.

The statistical data included in this document has been provided by Statistics Canada (for Canadian exports) and the World Trade Database (for country imports). Due to the time and recording differentials inherent in the two databases, Canadian export statistics are provided in Canadian dollars, up to 1995; whereas country import statistics are only available in US dollars up to 1994. This standard is consistent throughout the document.

POTENTIAL OPPORTUNITIES:

The Middle East is generally an arid region with limited land available for agricultural production. Irrigation methods are used, however, countries (specifically Saudi Arabia) are finding it more difficult to drill for fresh and usable water, resulting in a further reduction of productive capabilities. As such, the region tends to import a large amount of agriculture and agri-food products to support consumption demands. These imports range from US$140 million (Qatar in 1994) to US$4.1 billion (Saudi Arabia in 1994). Thus it is clear that the Middle East offers immense potential for Canadian agri-food exporters.

Key opportunities include:

- **Processed Food and Products:** ***(HIGH)*** There are extensive opportunities for value-added products in all ten countries covered by this study, however, the UAE, Saudi Arabia, Bahrain, and Kuwait offer the best potential for growth.
- **Special Crops:** ***(HIGH)*** Canadian exports of special crops to the region have been increasing steadily over the past several years, with new opportunities emerging in chick peas and other pulses. Key markets are: the UAE, Saudi Arabia, Kuwait, and Syria.
- **Beverages:** ***(HIGH)*** Since most countries in the Middle East are predominantly Muslim, there is a high demand for non-alcoholic beverages. Canadian fruit and vegetable juices, carbonated flavoured water, and mineral water have the potential to do very well in the region. Bahrain, in particular, offers a great deal of potential for alcoholic beverages as well.
- **Grains and Oilseeds:** ***(MEDIUM)*** Although Canadian exports of grains and oilseeds have tended to be either erratic or declining, there are significant opportunities for canola oil and niche products in many countries, most notably Saudi Arabia and the UAE.
- **Eggs and Poultry:** ***(MEDIUM)*** There are promising opportunities for egg-type and broiler-type breeding chicks in Saudi Arabia, the UAE, Bahrain, and Yemen. As well, since pork is not consumed in most of the countries, poultry meat is generally a large staple.
- **Livestock and Other Animal Products:** ***(MEDIUM)*** Despite rigorous import regulations, the Middle East is a large import market for live animals and meat products. Strong potential exists in the UAE, Saudi Arabia, Jordan, and Syria.

GENERAL CONSTRAINTS:

Many North American's perceive the Middle East to be too complicated a market to enter, despite the significant opportunities that await determined exporters. Although there are very real constraints to dealing with the Middle East, they are easily overcome with the right approach. Some of the more notable difficulties include:

- **Transportation Costs:** Due to the long distances involved, there are considerable costs involved in exporting goods to the Middle East. Furthermore, containerization is often a problem. Since Canada does not import enough products that require refrigerated or ventilated containers, exporters often find it costly to bring these specialized containers up from the US.
  - *Although these are real constraints, Canadian exporters may consider consolidating shipments to the Middle East to reduce costs and avoid partially empty containers from increasing shipping costs.*

- **Language and Cultural Barriers:** Unlike exporting to the US or Europe, the Middle East is a dramatically different environment in which to operate. There are very specific ways to conduct business which may seem foreign to many Canadian exporters.
  - *These barriers are easily overcome with frequent visits to the region. Also important is the selection of a good agent who can bridge the gap in culture and language for the exporter*

- **Strict Regulations:** The Middle East has a number of regulations that make exporting to the region complex and cumbersome. Most notably are the strict Halal requirements for animal products and bilingual (and other) labelling requirements for all goods.
  - *The Canadian embassies in the region can help exporters understand and comply with these regulations, as well as assist in the selection of a good agent who will also help. This document also explains a number of the requirements for exporting to the region.*

It should also be noted that Canadian producers have an inherent advantage in meeting the labelling demands of the region, since they are already accustomed to printing bilingual labels for domestic use.

MARKETING TIPS:

Below are some suggestions for marketing Canadian products to the Middle East:

- If possible, visit the region. Face-to-face contact can be the difference between marketing success and failure. Bring product samples (where applicable) and be prepared to discuss price.
- Consider participating in major food shows in the area. It is an excellent way to meet potential customers from throughout the region and beyond.
- Eye-catching designs, logos, and colours that identify the product as Canadian may boost sales.
- Be ready to assist with shipping. If necessary, be ready to recommend a shipping company or directly arrange shipment and provide shipping costs.
- Be prepared to discuss marketing and advertising strategies. Gulf importers, in particular, are increasingly looking for advertising advice and assistance, especially with new-to-market products.
- Be aware that many importers will request exclusive agency agreements with suppliers. In many cases, local laws make it difficult to terminate an agency agreement, even with due cause. Thus selecting a good agent is particularly important.

REGIONAL INFORMATION

MARKETING:

The Middle East is a dynamic and diverse region with differences in the way business is conducted both within and between the various countries. However, there are some general rules for marketing products in the region.

- Face to face contact can significantly increase the chances of establishing successful business relations.
- Maintaining that relationship through frequent communications is equally important for success.
- The countries in the region are mostly cash markets, with substantial revenues from oil resources.
- Many of the countries have fairly young populations, implying higher disposable income and expected growth in the future.
- The Gulf countries in particular have highly advanced agriculture and agri-food markets that tend to be very price competitive.
- The region has a strong knowledge and growing desire for Western products.

Key points to stress when selling products are:

- competitive price;
- Canadian origin; and
- the high-quality of the products.

Considerable emphasis should be placed on the role of these countries as possible markets for re-export of Canadian products. The port of Dubai in the United Arab Emirates (UAE) in particular, is a major re-export market, serving markets in other Gulf countries, Pakistan, Iran, and countries of the former Soviet Union (FSU). The Dubai World Trade Centre reported that Dubai imports approximately 70% of the UAE's consumable items, worth US$1.9 billion per year. Around 70% of these imports are then re-exported. Approximately 20% of these re-exported goods go to Iran, which is Dubai's largest re-export market. Dubai's re-exports to FSU countries were US$405 million in 1995, 27% of which was comprised of agricultural and agri-food products (not including equipment and chemical fertilizers). Azerbaijan is the leading market in the FSU for these re-exported goods.

Each country has specific, and often complex marketing regulations, such as labelling requirements and best before dates, that potential Canadian exporters should examine carefully before bringing their products to the region. For example, in Bahrain, baby food has an 18 month expiry period compared with a 12 month period in the UAE or Saudi Arabia. This example serves to highlight the importance of verifying each country's regulations before any sales are made. The Trade Annex that accompanies each country profile provides the details of many of these regulations.

It is strongly recommended by Migra's Canadian Exporters Guide (1995) that the term "**Persian Gulf**" should not be used on goods, documents, or letters for some destinations in this region. Anything so marked might be confiscated and destroyed by the Arab authorities. The term "**Arabian Gulf**" should be used.

PRICING:

Generally, it is recognized that shipping adds considerably to the cost of items manufactured in Canada, which can face stiff competition from Far Eastern suppliers. Thus pricing of products, particularly processed or semi-processed foods and beverages is particularly important. Many of the countries in the region have very price competitive markets, however, high Canadian quality goes a long way. Moreover, exporters

should consider the option of consolidating shipments of various products in order to reduce the burden of transportation costs, thereby making products more price competitive when they reach the markets.

Some of the countries in the region have strict policies with respect to pricing, while others have general norms that are followed by most exporters. Pricing policies are listed in the Annexes for each country.

RESTRICTED IMPORTS:
All imported beef and poultry products require a health certificate from the country of origin and a halal slaughter certificate issued by an approved Islamic centre in the country of origin ("halal" slaughter refers to animal slaughter performed according to Islamic law).

TRADE ARRANGEMENTS:
Gulf Cooperation Council (GCC):
The Gulf Cooperation Council (GCC) consists of six member countries (Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar, and Oman). The GCC controls half of the proven oil reserves outside the former Soviet Union, and accounts for about 40% of all the oil moving in international trade. Created in 1981, the GCC tried to maintain the balance of power in the Gulf by strengthening multilateral cooperation in security and economic matters. The presidency of the GCC rotates yearly among the rulers of the member countries. The GCC is headquartered in Riyadh, Saudi Arabia.

As far as trade is concerned, the GCC is a loose confederation which serves only as a policy-coordinating forum for its members. It cannot impose trade policies upon its member states, thus each is free to pass and enforce its own trade laws.

In recent years there has been growing cooperation among GCC members on certain issues, such as:
- ♦ establishing standards;
- ♦ setting tariff ranges; and
- ♦ intellectual property protection.

There is also consideration being given to forming a customs union. Renewed work on a free trade area between the GCC and the EU is also pushing the six member states to closer coordination.

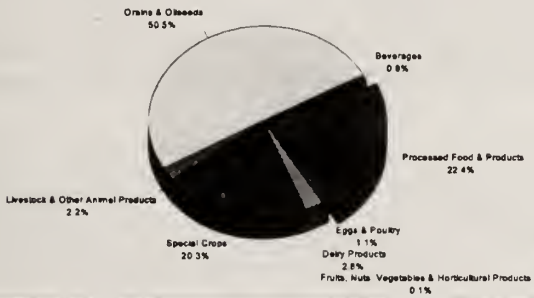
Arab Cooperation Council (ACC):
Jordan, Yemen, Egypt, and Iraq signed an agreement in February 1989, joining the countries in a new Arab economic bloc called the Arab Cooperation Council (ACC). The new community was designed to create a common market and encourage investment in joint projects. The goals of the association are to achieve economic integration in all production centres and coordinate the many areas including the economy, residence, travel, finance, industry, agriculture, transport, and communications.

Arab League Boycott of Israel
In 1994, the Arab League boycott of Israel was partially lifted. The original boycott was initiated in 1959 and stated that all products coming directly from Israel, through Israel, or containing inputs from Israel were banned from all Arab League countries. Moreover, trade with countries who also traded with Israel was restricted. The 1994 partial alleviation of the ban left only the primary ban on Israeli products intact.

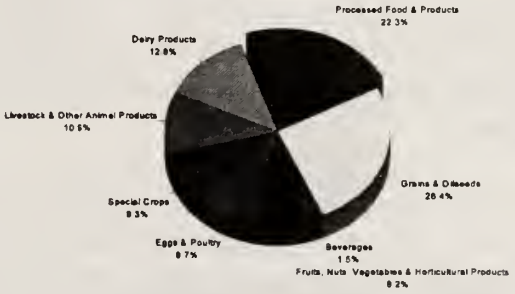
SAUDI ARABIA

Official Name	Kingdom of Saudi Arabia
Head of State	King Fahad Bin Abdul Aziz
Minister of Agriculture	Dr. Abdullah Bin Muammar
Language	Arabic (Official), English
Population (1995)	17.2 million
Currency	Saudi Riyal (SR)
Real GDP Growth (1995)	4.3 %
Gross Domestic Product (1995 Per Capita)	$7,152
Consumer Price Inflation (1995)	5.1%
External Debt (1995)	None
Principle Growth Sectors	Petrolium refining, service sectors
Total Country Exports (1995)	us$43 billion
Total Country Imports (1995)	us$24 billion
Agri-Food Imports from the World (1994)	us$4.1 billion
Agri-Food Imports from Canada (1995)	CDN$31 million

Canada's Agricultural Exports to Saudi 1995


Grains & Oilseeds 50.5%
Beverages 0.8%
Processed Food & Products 22.4%
Livestock & Other Animal Products 2.2%
Special Crops 20.3%
Eggs & Poultry 1.1%
Dairy Products 2.8%
Fruits, Nuts, Vegetables & Horticultural Products 0.1%

Saudi's Agricultural Imports 1994

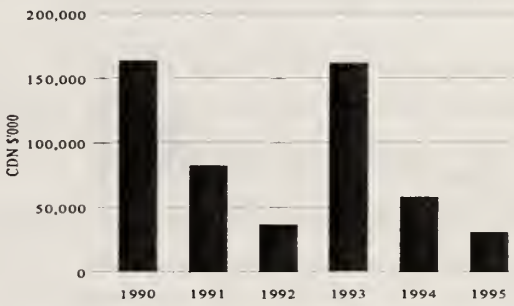

Processed Food & Products 22.3%
Dairy Products 12.8%
Livestock & Other Animal Products 10.5%
Grains & Oilseeds 26.4%
Special Crops 9.3%
Eggs & Poultry 0.7%
Beverages 1.5%
Fruits, Nuts, Vegetables & Horticultural Products 8.2%

CANADA'S AGRICULTURAL EXPORTS TO SAUDI

StatsCan : IN CDN $'000	1991	1992	1993	1994	1995
Grains & Oilseeds	81,782	33,942	125,893	46,402	15,852
Livestock & Animal Products	51	23	8	21	70
Special Crops	207	1,137	2,021	5,307	6,368
Fruits, Nuts, & Vegetables	47	186	67	509	40
Dairy Products	0	0	46	78	830
Eggs & Poultry	0	7	183	111	336
Processed Food and Products	682	1,379	3,585	5,862	7,027
Beverages	111	432	45	84	267
TOTAL EXPORTS	**82,683**	**36,996**	**131,802**	**58,282**	**30,978**

* Import and export totals may not match the sum of the commodities due to grouping and rounding procedures.

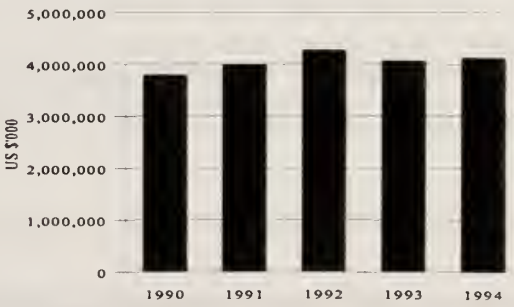
Canada's Agricultural Exports to Saudi 1990 - 1995



SAUDI'S TOTAL AGRICULTURAL IMPORTS

WTDB : IN US $'000	1990	1991	1992	1993	1994
Grains & Oilseeds	981,843	1,047,820	1,200,822	959,637	1,087,088
Livestock & Animal Products	551,568	401,047	427,253	586,369	449,137
Special Crops	368,721	380,983	381,897	395,792	383,858
Fruits, Nuts, & Vegetables	310,031	319,408	394,009	398,589	338,362
Dairy Products	417,351	449,795	474,473	290,629	527,611
Eggs & Poultry	264,932	309,264	313,207	401,532	359,082
Processed Food and Products	847,746	1,020,806	1,004,801	968,102	917,289
Beverages	51,403	67,685	70,340	63,823	59,837
TOTAL IMPORTS	**3,793,595**	**3,996,808**	**4,266,802**	**4,064,473**	**4,122,264**

Saudi's Agricultural Imports 1990 - 1994



SAUDI ARABIA

BACKGROUND INFORMATION

Political Economy:

Saudi Arabia is a traditional monarchy. It is ruled by descendants of its founder, King Abdul Aziz Al Saud, who unified the country in the early 1920s. Law is based on the body of Islamic jurisprudence derived from the Koran. Saudi Arabia has the world's largest reserves of petroleum and ranks as the largest exporter of petroleum. The petroleum sector accounts for roughly 70% of budget revenues, and almost all export earnings. The primary focus of the government in recent years has been the encouraging of private economic activity in order to turn Saudi Arabia into a modern industrial state that retains traditional Islamic values.

Agriculture in Saudi Arabia:

Saudi agriculture has shown rapid growth in production over the last several years, while food processing has only recently begun significant expansion. The growth in agricultural output had been led until recently by wheat, but is now declining. Livestock, vegetable, and fruit production, on the other hand, has been increasing in recent years. Much of the expansion has relied on imported technology and production inputs. This may lead to growth in demand for inputs related to the livestock and poultry or the fruit and vegetable segments.

Prospects for agricultural output in 1996 were not as good as in previous years. The major factors being the reduction of overall Government producer and consumer subsidies, easy term loans for newer agricultural projects, price supports, tariff protection for "infant" industries and other incentives to domestic agricultural production and food processing.

Agricultural Trade in Saudi Arabia:

Saudi Arabia has long been one of the world's most attractive export markets (particularly for agri-food products) and, not surprisingly, the market is also one of the world's most competitive. This is due to the country's wealth, growing population, and demand for large quantities of both bulk and processed food products.

Despite major strides in food production, recent cutbacks in government subsidies coupled with delayed payments to farmers have alienated many Saudi crop farmers and reduced prospects for growth in agricultural output. Saudi Arabia, thus, remains a major food importer, with imports of over US$4.1 billion in 1994, up from US$3.8 billion in 1990. Since Saudi agricultural importers are cash customers, the country is considered to be a very good market for Canadian food suppliers.

Canada's overall agri-food exports to Saudi Arabia have dropped to $31 million in 1995, from over $131 million in 1993; this is due to a decrease in barley sales. Despite this decline, trade with Saudi Arabia is promising for many other areas, notably processed food and products, and special crops.

EXISTING OPPORTUNITIES:

GRAINS AND OILSEEDS

Market Characteristics:

Over the last several years, wheat has strongly dominated Saudi grain production. The Kingdom achieved self-sufficiency in wheat production in 1984/85 and since 1986 has become a net exporter. Saudi Arabia has exported over 2 million tonnes of wheat annually in recent years. However, recent policy actions due to a recession in the Saudi economy are forcing changes. Wheat output dropped sharply from 4.1 million tonnes in 1992 to estimated 2.5 million tonnes in 1994. This reduction has eliminated exportable wheat. The Saudi government stopped wheat exports in June of 1995, and is not expected to export any wheat this year.

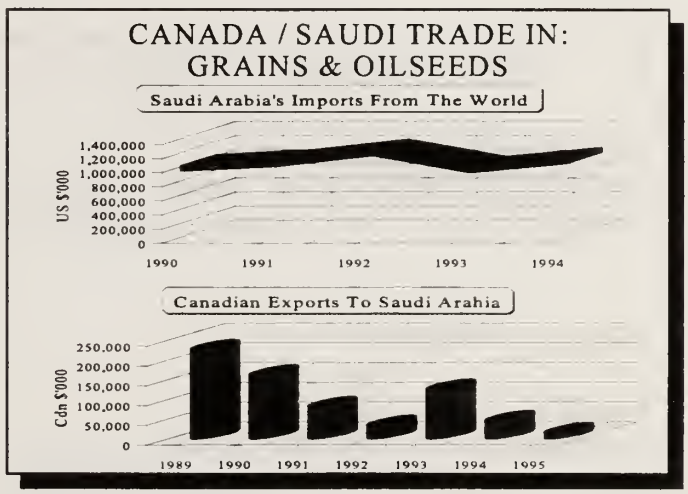
- Saudi imports of non-durum wheat fell dramatically from 1990 (US$71.7 million) to US$8.7 million in 1994. In 1994, Oman was the principal supplier of wheat, with US$7.1 million in sales.

Barley production increased from 406,000 tonnes in 1992 to 1.8 million tonnes in 1994. However, the concerns for the government budgetary problem is expected to reduce output sharply in the next few years.

- On the import side, Saudi Arabian imports of barley fell from US$455 million in 1992 to US$234 million in 1993, then recovered to US$410 million in 1994.
- Saudi reduced their imports from France (US$145 million in 1992 to US$61 million in 1994) and increase their imports from Germany (US$59 million in 1992 to US$156 million in 1994).

Saudi imports of grains and oilseeds have increased since 1990 levels of US$982 million to US$1.1 billion in 1994, but have decreased slightly since 1992 when they were at US$1.2 billion.

- The major change has come in imports of vegetable oils which increased from US$100 million in 1990 to US$158 million in 1994 and rice imports which grew from US$257 million to US$326 million over the same period.



Export Opportunities:

Overall Canadian exports of grains and oilseeds to Saudi Arabia have fallen from $226 million in 1989 to almost $16 million in 1995.

The increase in barley production in Saudi Arabia resulted in the dramatic decrease in Canadian exports of barley to the kingdom, from $125 million in 1993 to $15 million in 1995. On the other hand, the decline in Saudi wheat production may ultimately open up mid-to-long term opportunities in that market.

Canadian oilseed exports to Saudi Arabia have increased from $0 in 1990 to $116,000 in 1995. This increase comes solely from soybeans ($88,000) and sunflower oils ($18,000).

Constraints & Competitors:

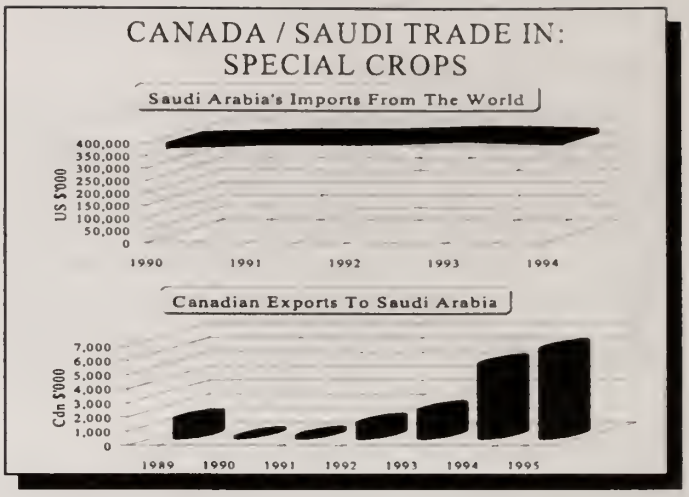
Principal competitors in this market are the EU, the US, and India on the grains side, and India, Malaysia, and the US in the oilseeds market.

SPECIAL CROPS

Market Characteristics:

Over the past several years, Saudi Arabia's imports of special crops has remained relatively constant, hovering around the US$380 million mark.

- Approximately 94% of these imports were in tobacco and tobacco products which reached over US$360 million in 1994.
- The remaining US$23 million comes from pulses, bringing Saudi Arabia's 1994 imports of special crops to US$383 million.



Despite an increase in alfalfa production, Saudi may be unable to maintain increased levels due to the large amount of water necessary to produce these crops, thereby necessitating increased imports.

Export Opportunities:

Canadian exports of special crops to Saudi Arabia peaked in 1995 at over $6.4 million. up from $139.000 in 1990.

- Exports of tobacco products increased from $0 in 1990 to $3.6 million in 1995.
- Pulses and seeds for sowing exports increased from $138,000 in 1990 to $2.7 million in 1995.

Constraints & Competitors:

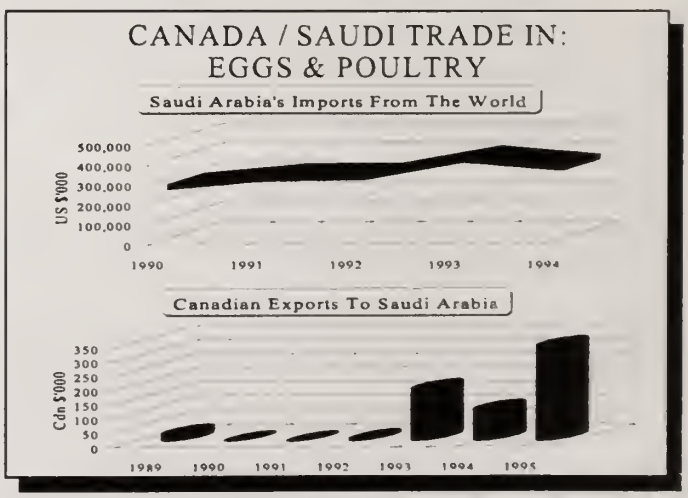
The principal competitors for tobacco and tobacco products are India. the US, and the EU. Turkey, Australia, and the US are the major suppliers of pulses to Saudi Arabia.

EGGS & POULTRY

Market Characteristics:

Saudi imports of eggs and poultry have increased significantly to US$359 million in 1994, from US$264 million in 1990, although the 1994 figure represents a decline of US$42 million from 1993 levels.

- This increase in due solely to larger imports of poultry meat, which jumped from US$246.9 million in 1990 to US$340.2 million in 1994.
- Imports of live poultry and eggs in shell have remained relatively constant, hovering around US$7.5 million and US$6 million respectively.



The poultry industry in Saudi Arabia is highly modernized resulting in net exports of approximately 10% of its table egg production to the neighbouring Gulf states. Domestic broiler production is continuing to expand from the current 50% levels of self sufficiency.

Large poultry producers have plans to increase their output sharply, however implementation depends primarily on continued government assistance which is shrinking each year. The current price of table eggs is stimulating producers who had abandoned their farms to restart production and other farmers to enter this market.

Export Opportunities:

Canadian exports of eggs and poultry to Saudi Arabia have been exclusively in egg-type and broiler-type breeding chicks. Exports to Saudi reached their highest levels in 1995, increasing from $0 in 1990 to almost $336,000; by October, 1996, they were already at $249,000. Saudi Arabia is Canada's largest market in the region for these products, and the one which has the most potential for growth. Saudi imports of live poultry declined from US$8.1 million in 1990 to US$7 million in 1994.

Constraints & Competitors:

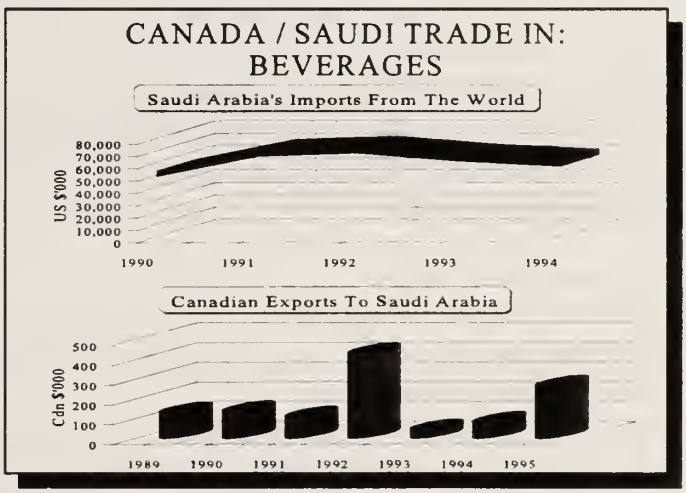
Principal competitors for egg-type chicks include the EU - Germany and France (Shavers' parent company is ISA) - and the US. Canada's competitors for broiler-type chicks are the EU, US, and Brazil.

BEVERAGES

Market Characteristics:

Saudi Arabia's imports of beverages have increased by US$8 million since 1990 to reach US$59.8 million in 1994. This is a decline from 1992 levels of US$70 million.

- As one would expect the imports come primarily in the form of fruit and vegetable juices (US$10 million in 1994) and other non-alcoholic beverages (US$47.6 million in 1994). A potential market is to be found exporting juice concentrates instead of juices.



Production of soft drinks and other beverages is possibly the fastest growing part of the Saudi food industry. Market growth is occurring for both juice concentrates and beverage bases.

Export Opportunities:

Canadian exports of beverages to Saudi Arabia have increased as a whole since 1990, reaching $259,000 in 1995, but have declined from the 1992 highs of $443,000.

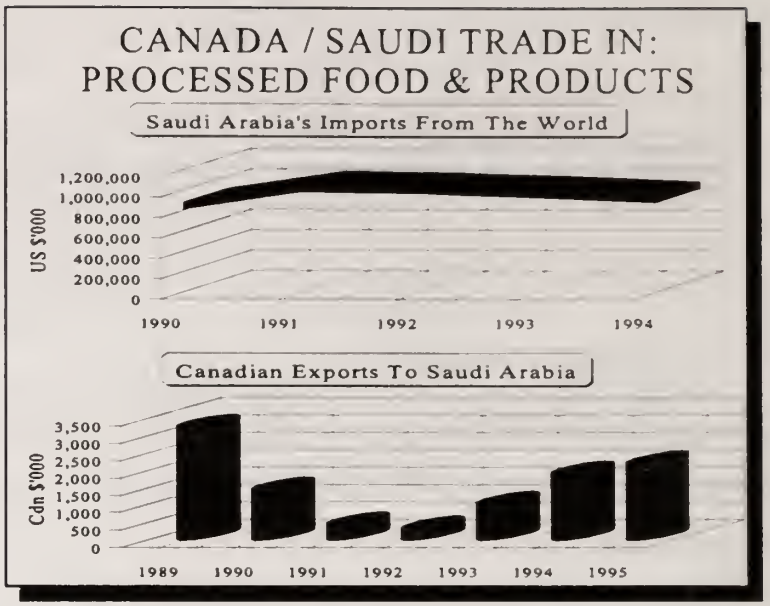
- Notably, however, mineral and other waters have increased dramatically over this period, with no exports from 1990 to 1994, then reaching $117,00 in 1995.

Constraints & Competitors:

The US market share is around 22%, while other competitors include the EU, Switzerland and Brazil.

Market Characteristics:

Saudi imports of processed food and products has increased from US$847 million in 1990 to US$918 million in 1994, but as with most other product groups, has declined from 1992 levels of just over US$1 billion.



The demand for processed food and products (especially fruits and vegetables) in Saudi Arabia is substantial. The growth of supermarket food sales is helping to broaden the market, and good market growth is expected to continue. Local production is just beginning and may provide a market for fruits and vegetables to be processed, but the small amount of local fruit and vegetable output and the high cost related to importing them for use in local processing suggest that most of the demand will continue to be met by imports.

The last official census indicated that more than 60% of the Saudi population is in their teens, which as a group is a heavy consumer of snack foods. Local production is expected to grow rapidly in the next five years. Products focusing on Saudi trade preferences, which tend to favour sweeter items, generally find better market reception. In Saudi Arabia in particular, promotion and advertising efforts are especially important to acquaint potential consumers with these non-traditional products in order to gain wider consumer acceptance

Export Opportunities:

Canada's exports of processed food and products almost tripled since 1990, reaching over $7 million in 1995, up from $2.4 million in 1990. This represents some of Canada's most impressive growth in exports to Saudi Arabia, particularly in:

- *chocolate confectionery:* increased from $0 in 1990 to $652,000 in 1995;
- *biscuits:* reached $397,000 from $0 in 1990;
- *tomato ketchup:* increasing to over $895,000 in 1995 from $0 in 1990; and
- *ice cream:* exports growing from almost $4,000 in 1990 to over $2.6 million in 1995.
- *frozen french fries:* jumped from $347,000 in 1990 to over $2 million in 1995.

Constraints & Competitors:

This market is highly competitive, dominated by the US, but followed by large and regular imports from Europe and Asia.

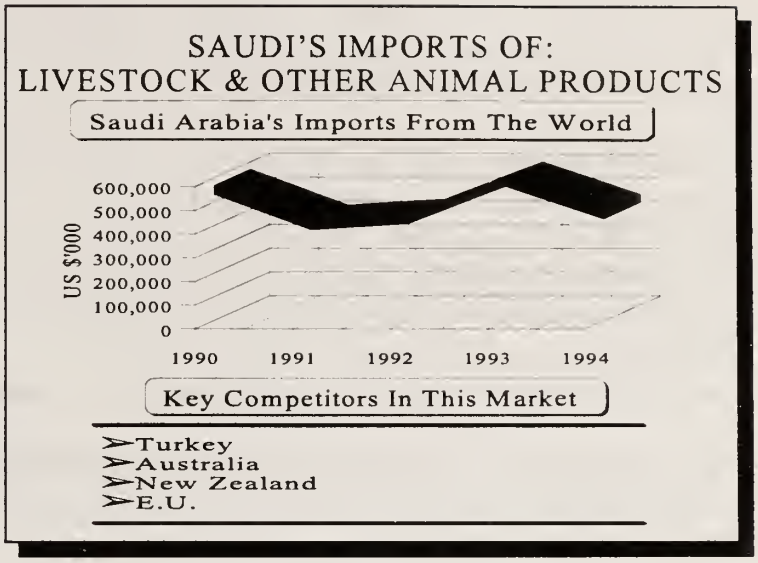
NEW AND EMERGING OPPORTUNITIES:

LIVESTOCK & OTHER ANIMAL PRODUCTS

Market Dynamics:

Between 1990 and 1994, Saudi imports of livestock and other animal products have fluctuated between US$401 million (1991) and US$586 million (1993), settling at US$449 million in 1994.

- While imports of live sheep and goats have decreased from US$384 million in 1990 to US$221.5 million in 1994, Saudi imports of live bovine have increased almost 500% to reach US$20.8 million in 1994.



Cattle production is dominated by dairy farming which is one of Saudi's most well developed agricultural sectors. Sheep raising and fattening is a growing agricultural activity and local production meets about 50% of demand. Camels and goats are raised by the Bedouins (nomadic herders and traders) for meat and milk.

Despite the imposition of a 12% duty on imported red meat consumption and imports continued to increase, primarily because prices of imported meat are still very competitive.

- Saudi imports of red meat have increased since 1990. Meat of bovine imports grew by over US$23 million to US$89.9 million in 1994, and imports of mutton increased from US$66 million in 1990 to US$97.7 million in 1994.

Canadian exports of livestock and other animal products to Saudi Arabia have fallen from $227,000 in 1989 to $70,000 in 1995.

- However, exports of animal genetics to Saudi Arabia have recovered after four years of no sales (1990 - 1993) reaching $22,000 in 1995.
- The same is true for red meat exports to Saudi which were at their highest level in 1995 ($37,000).

Constraints & Competitors:

Principal competitors for live animals are Turkey, Jordan, and China (sheep and goats), and the EU - Germany, Ireland, and Italy - and the US (bovine).

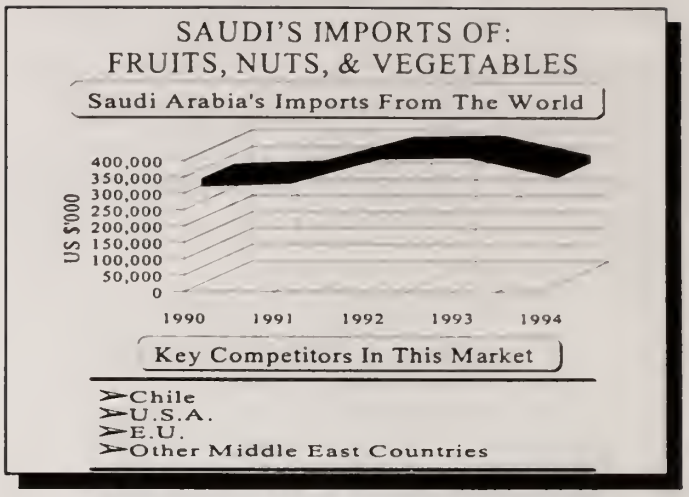
The market for red meat (bovine) is dominated by the European Union, specifically Ireland, Italy, and the Netherlands. The mutton import market is supplied primarily by Australia, New Zealand, Turkey and India.

FRUITS, NUTS, & VEGETABLES

Market Dynamics:

A change in Saudi policy has reportedly increased forage production since 1993. Saudi Arabia is the world's largest producer of dates, while production of other fruits includes grapes, citrus fruits, melons and water melons, and miscellaneous fruits.

Vegetable production has increased in the past few years. The Kingdom is currently self-sufficient in some seasonal vegetables. Modern technologies such as drip irrigation systems and climate controlled greenhouses are used in local vegetable and production. Major products include: tomatoes, potatoes, cucumbers, squash, egg plant, and okra.



On the import side, Saudi imports of fruits, nuts, and vegetables have increased slightly from the US$310 million level of 1990, but have fallen from 1992 and 1993 imports of around US$392 million to rest at US$338 million in 1994.

Opportunities may exist for seed potatoes and forage seed. A Canadian industry representative has estimated that the demand for seed potatoes is 10,000 tonnes/year. Canada has had little success in selling seed potatoes to Saudi Arabia, although a breakthrough was made in 1994 with exports of almost $436,000.

Constraints & Competitors:

The principal competitors in this market include the EU, Turkey, Chile, the US, and other Middle Eastern countries.

DAIRY PRODUCTS

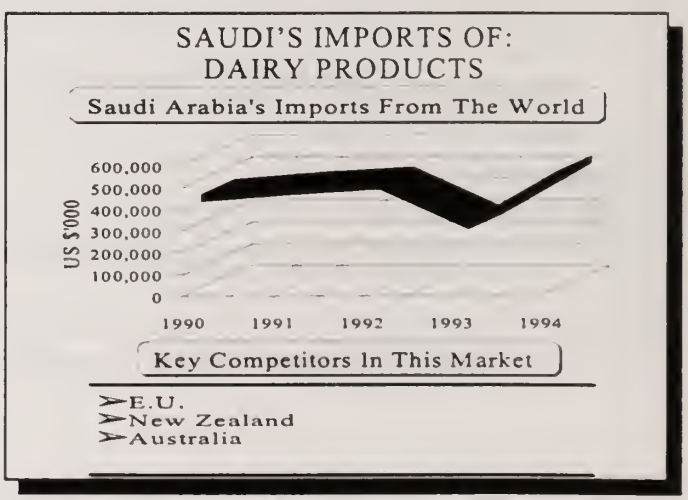
Market Dynamics:

Saudi imports of dairy products have increased on the whole from 1990 to 1994, reaching US$527.6 million in 1994, from US$417 million in 1990. In 1995, Canada broke into this market with a significant increase in exports, reaching $830,000.

- The increase in Canadian exports came primarily from cheese ($411,000) and butter ($287,000).

Constraints

The principal competitors in this market include the EU, New Zealand, and Australia.



ANNEX A: MARKETING INFORMATION

Background Information:

There are three major marketing regions in Saudi Arabia:

- the Western Region with the commercial centre of Jeddah;
- the Central Region where the capital city Riyadh is located;
- and the Eastern Province where the oil and gas industry is most heavily concentrated.

Each has a distinct business community and cultural flavour, and there are few truly "national" companies dominant in more than one region.

As well, expatriate managers have had a strong influence in introducing advanced selling techniques into a market that, until a few years ago, relied heavily on word-of-mouth and established buying patterns.

Distribution System in Saudi Arabia:

Saudi Arabia is a loose segmented market. The product flow chart is as follows :

- The importer/agent of a brand or product.
- The distributor.
- The wholeseller
- The retailer.

More often than not roles are combined between importer/agent and distributor. More and more Saudi importers are assuming the roles of distribution and wholeselling. With the improved infrastructure of communications and transport, distribution has become easy and worth the effort.

Retail Structure in Saudi Arabia:

There are several different types of retail outlets in Saudi Arabia. They include:

- ***Baqala:*** As the corner grocery stores, Baqala's are the primary source and focal point of sale in several localities and particularly in the areas outside the major cosmopolitan cities.
- ***Mini Markets:*** These are just a form of bigger Baqalas. They carry more variety and stocks and are located in densely populated areas in cities as well as moffisil towns.
- ***Supermarkets:*** By far, supermarkets are the fastest growing retail outlets in the Kingdom of Saudi Arabia. In fact it has been reported that there are a number of supermarkets being opened daily. Supermarkets are becoming a way of life with many a urban dwellers, who represent approximately 60% of the population.

The current breakdown of retail outlets in the Kingdom is as follows:

- 200 major Supermarkets;
- 925 self service stores;
- 8000 medium size stores (3000 to 5000 sq ft); and
- approximately 17000 Baqala (under 2000 sq ft).

Consumer Market in Saudi Arabia:

The consumer market in Saudi Arabia has become more complex and competitive. The impact that a number of mass communication and distribution networks situated throughout the Kingdom are having on the Saudi consumer is increasing every year. This change is largely driven by:

- higher incomes;
- change in taste and preferences;
- rapid growth of retail outlets;
- better advertising; and
- growing population.

The Middle East is a multiracial society. This factor places specific needs in the area of food distribution due to the fact that so many different foods are needed to serve the various ethnic tastes. The purchasing of food and the attention given to selection and price is one of the main driving forces behind the rapid flood of products coming in from all over the world. This is an affluent consumer oriented society. The market is becoming quality conscious and goods of every colour, size, and type find their way into the local market. Saudi Arabia is a large country and the complexities and the needs of the distributors will vary from region to region.

The Changing Saudi Consumer:

There are five major factors which are changing the Saudi consumer market:

- The increase in the range of locally produced goods especially through the joint ventures between local and international producers.
- The number of supermarkets, commercial malls, and other self service outlets are on the rise throughout the Kingdom, providing a wider range of product choices for the consumer, and increasing the significance of advertising.
- The socio-economic changes at the micro-family level will also be significant. Multiple households belonging to one man and the extended family structure are gradually being replaced by smaller cellular family units. Children are becoming economically independent at a much earlier age.
- The changing structure of the expatriate population due to the increase numbers of expatriate families of non American and non -European nationalities. These new families have a higher percentage of children born in the Kingdom than they have had in previous years.
- Perhaps the most important is the changing demographic profile of the national population. More than 50% of the national population is under the age group of 17 years, with an annual population growth rate of 3.5%. With the population so young, education on the increase, satellite dishes giving out western programs on television, and the fast pace of life offered now it is inevitable that the purchasing patterns of the growing adults will change to resemble more closely those in the west.

Pricing:

Stability of prices has been a policy of the Saudi government for many years. Products are usually imported on a CIF basis, and mark-ups depend almost entirely on what the vendor feels that the market will bear relative to the competition. There is no standard formula to come up with the mark-up rates for all product lines at different levels of the relatively short distribution chain.

ANNEX B: TRADE REGULATIONS

Import Licencing:

The import of certain commodities is prohibited for reasons of religion, health, or security. Prohibited agri-food items include:

- alcoholic beverages; and
- pork and pork products.

All imports from Israel are prohibited.

Imports of the following products requires special approval by Saudi authorities:

- agricultural seeds;
- live animals; and
- fresh/frozen meat.

Beyond the above restrictions, import licenses are not required, except for imports of flour, rice, and sugar (but importers should have an agency agreement); and certificates of origin are required for all imports coming into Saudi Arabia. It is recommended that exporters confirm the specific requirements for the above products with the Embassy in Saudi.

Credit and Payment Conditions:

- ***Usual Terms:*** Offset arrangements are encouraged. Usual terms are 30 to 90 days; longer credit terms (up to 180 days for public sector contracts) are frequently requested. Irrevocable letters of credit are recommended, although sight drafts remain the most frequent mode of payment. Local bank guarantees are usually required for exporters to Saudi Arabia; with many being automatically extended, subject to the contract expiry date.

- ***Transfer Situation:*** Foreign exchange delays average 3 months, but in light of the government's current fiscal constraints, delays exceeding 10 months for public-sector contracts are common. An Arab Chamber of Commerce Certificate of Origin is required for all exports.

Customs Tariff:

The Saudi Arabian Customs Tariff classifies goods according to the Harmonized Commodity Description and Coding System (HS Codes). This is the same system used by Statistics Canada (and throughout this report) to classify Canadian statistics.

Most imports are subject to customs duties at rates ranging between 0 and 12%, while a short-list of imports are subject to a rate of 20%, and tobacco products face duties of 30%. Most basic consumer goods are duty free. Examples include: sugar, rice, tea, unroasted coffee, barley, corn, etc.

- ***Gulf Cooperation Council (GCC):*** During 1983, Saudi Arabia agreed on a common external tariff with other members of the GCC. Under this system, Saudi abolished customs duties on goods originating from member countries of the Council, provided that at least 40% of the value added in each case was effected in GCC countries, and that the capital of the producing firm was at least 51% owned by GCC citizens.

Taxes:
Saudi Arabia has a liberal tax system. No sales taxes are levied.

Labelling Requirements:
Labelling and marking requirements are compulsory for any products to be exported to Saudi Arabia. The Saudi Arabian Standards Organization (SASO) is responsible for establishing labelling guidelines in the Kingdom, and these guidelines are strictly enforced.

Labelling is particularly important for companies marketing food products, personal care products, health care products, and pharmaceuticals. SASO has specific requirements for identifying marks and labels for various imported items.

Companies should consider contacting SASO (Tel: 01-456-9900 or Fax: 01-452-0086) for any changes or additions to these requirements..

Quality control laboratories at ports of entry may reject the entry of products that are in violation of existing laws. Products arriving at port with less than one-half of the time remaining between production and expiration date will be rejected and cannot be sold in the Saudi market.

There are health and sanitation regulations on all imported foods. The Ministry of Commerce has issued a number of directives aimed at preventing outdated goods from entering the Kingdom.

Saudi Arabia has the most exhaustive and detailed labelling requirements in the region. This is specifically true for Halal products.

Halal Export Requirements: *(taken directly from Arab World Online)*
Eligible/Ineligible Products:
Eligible product: Fresh/frozen red meat and poultry.

- Male cattle not over 5 years old must be in cuts not smaller than quarters. Sheep not over 3 years old must be shipped in whole carcasses.
- Each carcass (side or quarter if cattle) must:
    a. Bear legible inspection legend.
    b. Be free from any preservatives.
    c. Have kidneys removed.
    d. Be wrapped in clean white cloth.
- The carcass shall be eviscerated and free from head, feet and kidney fat. A part of the tail may be left to identify the animal type.
- No preservatives, antibiotics or colouring material, except the stamping ink, shall be used.

Slaughter Requirements:
Ritual Islamic Halal Slaughter requirements apply.

Labelling Requirements:
All products: Storage temperature must be placed with the refrigeration statement on the boxes to fully clarify the type of product being handled. (Example: "keep frozen store at or below __ °C; keep chilled (or refrigerate) store between __ °C and __ °C.")

Fresh/frozen meat and poultry: In addition to the labelling features mandatory in North America, precut and packaged meat and poultry must bear the following features (in print):

- Bilingual labels. The Arabic language must be one of the languages used for declaration.
- Statement that product has been slaughtered according to Islamic principles.
- Metric net weight.
- Production (slaughtering or freezing) and expiration dates. Spell out or abbreviate name of month. (Example: Jan. Or January 1996. It may also be expressed 27/4/87 or 27 APR 96 in English and Arabic.) Calendar strips preprinted on label allowing the designation of calendar dates with the literal translation are in frequent use.
  - Production (slaughtering or freezing) date must be accompanied by the statement "Production good for __months from date of production."
  - Expiration date is calculated from the date the product was first frozen.
- The use of the terminology "Keep Refrigerated" is not acceptable on labels for frozen products.

NOTE: The following labelling methods may be used as alternatives:

- Sticker: Must not interfere with label terminology and be self destructive on removal. Over-labelling may result in refused entry of product. Stick on labels covering existing labelling information are in violation.
- Inserts: Must be accompanied by production and expiration dates. Inserts must be made of approved materials.
- Ink stamp: Ink must be indelible and legible. (This is the least desirable labelling method.)

Processed meat and poultry:

- Features required on processed meat and poultry labels:
  - Bilingual labels with labelling features mandatory in North America;
  - Metric net weights;
  - Identification of pork products (including lard); and
  - Production and expiration dates.
- A Certificate of Islamic Slaughter is not required for processed meat and poultry products, but the origin of the product must be from Muslim approved operations.

Prepackaged processed meat and poultry products:

- Production date (packaging or freezing) and expiration date.
- Net weight of frozen product.

Handling/Storage Requirements:

Saudi Arabia requires that instructions for consumers concerning storage, preparation and other special handling requirements accompany all shipments.

Other Requirements:

Saudi Arabian Import Inspection

- Laboratory sampling. Random samples collected on all meat and poultry products entering Saudi Arabia are examined for:
  - Salmonellae product rejected when more than 2 of 5 sub-samples are positive.
  - E. Coli (no tolerance in ground beef).
  - Growth bacteria maximum 10,000,000/gm.
  - Volatile nitrogen beef: maximum 20 mg./100 gm.; Poultry: maximum 50 gm./100 kg.

- Species identification tests for pork are routinely run on all products.
- When frozen poultry sample is thawed, the amount of water collected should not exceed 5 percent. Saudi Arabian officials recommend that Canadian industry run test prior to shipment to assure that product is not detained on arrival.

Detained products

If a product is detained, an appeal must be made in person by a Saudi Arabian broker or consignee to the Saudi Ministry of Commerce. Appeals are decided on a case by case basis.

Product Arrival and Expiration Date

Poultry: The period elapsed from slaughtering until arrival in Saudi Arabia shall not be more than 3 months for frozen turkey, duck, goose, and chicken.

Frozen meats and poultry: The period from slaughtering and freezing until arrival in Saudi Arabia shall not be more than 4 months. Product shall be maintained frozen at a temperature not more than 18 °C. with an expiration date of 10 months for beef; 9 months for minced meat, hamburger and sausages; and 8 months for livers.

Chilled meats and poultry: The period elapsed from slaughtering until arrival to Saudi Arabia shall not be more than 10 days at a temperature not exceeding 2 °C. with an expiration date of 4 weeks after slaughtering date.

Chilled vacuum meats and poultry: The period elapsed from slaughter until arrival in Saudi Arabia shall not be more than 40 days at a temperature not exceeding 2 °C. with an expiration date of 10 weeks after slaughtering date.

ANNEX C: LOGISTICS

Infrastructure in Saudi Arabia:

Saudi Arabia possesses a good network of infrastructure to facilitate the distribution of goods and services. The business centres of Riyadh, Jeddah, and Dammam/Al Khobar/Dhahran each have an international airport served by a variety of international airlines with passenger and cargo capabilities. Two domestic airports are undergoing upgrading and expansion works, and the government is evaluating proposals to build a new airport at Dawadmi. Most inter-Kingdom freight is hauled by truck over a good highway system linking the major business centres. One rail line carries passengers and freight between Dammam and Riyadh. Another rail link is expected to be built between the industrial city of Jubail and Dammam. Jeddah and Dammam are the main international seaports for moving containerized and bulk cargo.

Entry and Warehousing:

All imported goods are deposited at Saudi government customs warehouses or at other places within the port area. There are no private warehouse facilities. Goods deposited remain the sole responsibility of the shipping companies until received by the customs agent. After clearing customs, the goods become the responsibility of the importer. At no time will the customs authorities assume responsibility for the goods. Goods not claimed within 15 days are subject to public auction.

Key Ports of Entry:

Saudi Arabia has three principal ports:

- Jeddah on the West;
- Dammam on the East; and
- Dhiba, which is expected to enhance service between Saudi Arabia and the Egyptian ports of Suez and Safaga on the Red Sea.

Shipping Restrictions:

All commercial shipments to Saudi Arabia must have the following documents:

- commercial invoice
- certificate of origin
- a bill of lading or air way-bill
- steamship or airline company certificate
- an insurance certificate (if goods are insured)
- a packing list

In some situations, other documents may be needed. For example, food products require a manufacturer's ingredients certificate and also a consumer protection certificate. These must accompany a price list.

When it comes to importing meat, only male beef or sheep meat fresh or frozen can be imported into the Kingdom. Special documents in addition to those listed above are required for these imports. They are:

- documents certifying that the animals were slaughtered according to Islamic rules (meat and poultry)
- an official health certificate -- all meat products must have a health certificate guaranteeing freedom from disease

For the shipment of grains, seeds, animal feed, livestock, pets, horses, fruits, and vegetables, special documentation is also required.

Free Trade Zones:

There are no free trade zones in Saudi Arabia at this time.

Importer/Agency Agreements:

Foreign exporters are not required to appoint a local Saudi agent or distributor to sell to Saudi companies, but commercial regulations restrict importing and direct commercial marketing within the Kingdom to Saudi nationals and wholly Saudi-owned companies. Agent/distributor relations are governed by the Commercial Agencies Regulations of the Kingdom of Saudi Arabia, administered by the Ministry of Commerce. While there is no requirement that distributorships be granted on an exclusive basis, it is clearly the policy of the Saudi Ministry of Commerce that all arrangements be exclusive with respect to either product line or geographic region.

A foreign contractor and his Saudi agent fall under a regulation issued in 1978. The regulation stipulates:

- If a foreign contractor does not have a Saudi partner, then he should have a Saudi service agent.
- The Saudi agent must be living in the Kingdom and must be registered as an agent for the foreign company in the Commercial Register of the Ministry of Commerce.
- An Agency Agreement governs and defines the obligations and relations between the Saudi agent and the foreign contractor.
- The foreign contractor pays fees to the agent in return for his services. These fees should not exceed 5% of the cost of the total contract.
- More than one Saudi agent may be employed by a foreign contractor involved in different kinds of work.

Many companies import goods solely for their own use or for direct sale to end-users, making the number and geographical pattern of retail outlets a factor of potential significance. Canadian exporters may find it advantageous to appoint different agents or distributors for each region having significant market potential. Multiple agencies and distributorships may also be appointed to handle diverse product lines or services.

Holidays and Hours of Operation:

Religious holidays are based upon a lunar calendar, and are announced upon lunar sightings, as such the following is a only a guideline: Jan. 1; April 13; July 14-16; Oct. 6; and Dec. 25-26.

Hours of Operation:

- *Government:* 7:30 am to 2:30 pm, Saturday through Wednesday.
- *Business Establishments:* 8 am to 1 pm, and 5 pm to 8 pm, Saturday though Thursday.
- *Commercial & Industrial:* 8:30 am to 1 pm, and 1:30 to 4:30, Monday through Friday.
- *Shops, supermarkets, and department stores:* 9 am to 12 pm, and 4 pm to 9 pm.
- *Banks:* 8:30 am to 12 pm, and 4:30 pm to 6:30 pm, Saturday through Wednesday; 8:30 am to 12 pm, Thursday.

BIBLIOGRAPHICAL INDEX - SAUDI ARABIA

BACKGROUND INFORMATION:

Department of Foreign Affairs & International Trade

- "Doing Business in the Middle East" (September, 1996)

Agriculture and Agri-Food Canada

- "Agri-Food Overview of the Gulf States" (1996)

United States Department of Agriculture - Foreign Agricultural Service (USDA/FAS)

- Attache Reports
- Food Market Report

These information products provide a comprehensive review of the country's agricultural production characteristics, trade policies, and market issues. They are a valuable tool for any exporter in assessing the opportunities for agricultural exports to a given country or region. These reports (and others) can be accessed electronically via the Internet at: ***http://ffas.usda.gov/ffas/markres.html***.

United States National Trade Databank

- International Trade Administration - "Country Commercial Guide"

The "Country Commercial Guides" offer the reader a broad analysis of the political/economic make-up of a country as well as a review of the economic trends and outlook for a number of industrial sectors.

EXPORT OPPORTUNITIES:

United States Department of Agriculture - Foreign Agricultural Service (USDA/FAS):

- Attache Reports

Statistics Canada

- Canadian Export Statistics (1988 - 1995)

World Trade Database

- Saudi Arabia's Import Statistics from the World (1990 - 1994)

ANNEXES:

Arab World Online (AWO)

One of the most used sites for this study, Arab World Online is an information source with direct access to virtually every aspect of the Arab world. AWO is a joint-venture between the National US-Arab Chamber of Commerce (NUSACC) and Multitasking Online. This site provides general overviews on all the countries in the Study, as well as detailed marketing, trade, and logistics information. Notably, the **Halal Requirements** section of Annex B is taken directly from this site. It can be accessed via the Internet at: ***http://www.awo.net***.

Arab Net

Arab Net is a web site that compiles a great deal of the relevant country and regional information available on the Internet into one, easy to use, site. It can be accessed at: ***http://www.arab.net***.

Dun & Bradstreet Exporter's Encyclopaedia (1995)

This is the single most often cited information product used in the Annexes. It provides a detailed guide to trade and logistical information for all of the countries in the study, as well as a variety of other useful information for exporters interested in the region.

Migra's Canadian Exporter's Guide.

One of the few private sector Canadian sources available, this guide offers some very detailed documentation requirements for the countries in the region.

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